

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Basic Financial Statements and
Independent Auditors' Report**

**For the Year Ended
June 30, 2008**

**Redevelopment Agency of the
County of San Bernardino
Basic Financial Statements**

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To the Governing Board
Redevelopment Agency of the County of San Bernardino

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino (the Agency), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's "Minimum Requirements for California Redevelopment Agencies." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing Redevelopment Agencies.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of the Redevelopment Agency of the County of San Bernardino's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Agency has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the financial statements.

The budgetary comparison information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Rogers, Anderson, Malody & Scott, LLP

November 14, 2008

**Redevelopment Agency of the
County of San Bernardino
Statement of Net Assets
June 30, 2008**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 57,193,543
Receivables:	
Taxes	2,253,893
Interest	621,028
Due from other governments	1,106,565
Prepaid items	83,383
Restricted assets:	
Cash and investments with fiscal agents	3,817,968
Deferred charges	2,106,075
Land held for resale	14,657,402
Capital assets:	
Equipment, net of depreciation	<u>8,744</u>
Total assets	<u>81,848,601</u>
LIABILITIES	
Accounts payable	75,749
Accrued payroll and benefits	44,605
Accrued interest payable	2,303,579
Due to other governments	298,396
Noncurrent liabilities:	
Due within one year	1,058,059
Due in more than one year	<u>66,785,078</u>
Total liabilities	<u>70,565,466</u>
NET ASSETS	
Invested in capital assets	8,744
Restricted for:	
Community development	27,114,941
Capital projects	9,006,916
Debt service	1,474,596
Unrestricted	<u>(26,322,062)</u>
Total net assets	<u><u>\$ 11,283,135</u></u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Statement of Activities
For the Year Ended June 30, 2008**

PROGRAM EXPENSES

Governmental activities:	
Community development	\$ 6,331,446
Passthrough agreements	2,451,932
Interest on long-term debt	<u>3,254,415</u>
Total program expenses	<u>12,037,793</u>

GENERAL REVENUES

Taxes:	
Incremental property taxes	15,619,991
Investment earnings	3,158,517
Other	<u>469,276</u>
Total general revenues	<u>19,247,784</u>

Change in net assets	7,209,991
Net assets, beginning of year, as restated	<u>4,073,144</u>
Net assets, end of year	<u><u>\$ 11,283,135</u></u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Balance Sheet
Governmental Funds
June 30, 2008**

	Special Revenue		
	San Sevaine Project	Low – Mod Housing	Cedar Glen Project
ASSETS			
Cash and cash equivalents	\$ 7,773,327	\$ 5,972,846	\$ 9,388,559
Cash with fiscal agent	-	-	-
Receivables:			
Taxes	1,711,880	542,013	-
Interest	95,008	54,866	94,808
Prepaid items	-	-	-
Due from other governments	127,938	-	-
Due from other funds	613,210	44,187	5,845
Land held for resale	6,027,262	2,831,879	311,076
Total assets	\$ 16,348,625	\$ 9,445,791	\$ 9,800,288
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 41,617	\$ -	\$ 9,608
Accrued payroll and benefits	44,605	-	-
Due to other governments	271,222	-	-
Due to other funds	29,487	190,578	205,765
Loans payable	-	-	9,365,000
Total liabilities	386,931	190,578	9,580,373
Fund Balances:			
Reserved for:			
Land held for resale	6,027,262	2,831,879	311,076
Debt service	-	-	-
Unreserved, reported in:			
Special revenue funds	9,934,432	6,423,334	(91,161)
Debt service funds	-	-	-
Capital projects funds	-	-	-
Total fund balances	15,961,694	9,255,213	219,915
Total liabilities and fund balances	\$ 16,348,625	\$ 9,445,791	\$ 9,800,288

The accompanying notes are an integral part of these financial statements.

Capital Projects		Debt Service	Other	Total
RDA Capital Projects	RDA Housing	2000 Series A Bonds	Governmental Funds	Governmental Funds
\$ 27,587,920	\$ 4,577,754	\$ 85,487	\$ 1,807,650	\$ 57,193,543
-	-	3,817,968	-	3,817,968
-	-	-	-	2,253,893
300,139	47,789	10,645	17,773	621,028
-	-	-	83,383	83,383
-	-	-	978,627	1,106,565
-	33,303	-	33,117	729,662
-	5,487,185	-	-	14,657,402
<u>\$ 27,888,059</u>	<u>\$ 10,146,031</u>	<u>\$ 3,914,100</u>	<u>\$ 2,920,550</u>	<u>\$ 80,463,444</u>
\$ -	\$ -	\$ -	\$ 24,524	\$ 75,749
-	-	-	-	44,605
25,804	1,370	-	-	298,396
-	-	73,500	230,332	729,662
-	-	-	1,050,000	10,415,000
<u>25,804</u>	<u>1,370</u>	<u>73,500</u>	<u>1,304,856</u>	<u>11,563,412</u>
-	5,487,185	-	-	14,657,402
-	-	3,778,175	-	3,778,175
-	-	-	1,614,603	17,881,208
-	-	62,425	1,091	63,516
<u>27,862,255</u>	<u>4,657,476</u>	<u>-</u>	<u>-</u>	<u>32,519,731</u>
<u>27,862,255</u>	<u>10,144,661</u>	<u>3,840,600</u>	<u>1,615,694</u>	<u>68,900,032</u>
<u>\$ 27,888,059</u>	<u>\$ 10,146,031</u>	<u>\$ 3,914,100</u>	<u>\$ 2,920,550</u>	<u>\$ 80,463,444</u>

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**Redevelopment Agency of the
County of San Bernardino
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
For the Year Ended June 30, 2008**

Fund balances of governmental funds	\$ 68,900,032
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,744
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Deferred charges	2,106,075
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	(56,345,000)
Compensated absences payable	(68,096)
Accrued interest payable	(2,303,579)
Deferred loss on refunding	148,632
Bond premium	(1,163,673)
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Net assets of governmental activities	<u><u>\$ 11,283,135</u></u>
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The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008**

	Special Revenue		
	San Sevaine Project	Low – Mod Housing	Cedar Glen Project
Revenues			
Tax increment	\$ 11,186,801	\$ 2,796,700	\$ 507,866
Use of money and property	405,351	232,547	471,363
Other	449,989	-	-
Total revenues	12,042,141	3,029,247	979,229
Expenditures			
Current:			
Community development	1,595,678	113,193	208,355
Pass through agreement payments	2,323,186	-	128,746
Capital outlay:			
Project improvement costs	1,144,663	-	400,000
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	5,063,527	113,193	737,101
Excess of revenues over (under) expenditures	6,978,614	2,916,054	242,128
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(2,585,286)	(936,902)	-
Total other financing sources (uses)	(2,585,286)	(936,902)	-
Net change in fund balances	4,393,328	1,979,152	242,128
Fund balances, beginning of year, as restated	11,568,366	7,276,061	(22,213)
Fund balances, end of year	\$ 15,961,694	\$ 9,255,213	\$ 219,915

The accompanying notes are an integral part of these financial statements.

Capital Projects		Debt Service	Other	Total
RDA Capital Projects	RDA Housing	2000 Series A Bonds	Governmental Funds	Governmental Funds
\$ -	\$ -	\$ -	\$ 1,128,624	\$ 15,619,991
1,514,527	280,203	165,218	89,308	3,158,517
-	-	-	19,287	469,276
1,514,527	280,203	165,218	1,237,219	19,247,784
-	-	-	207,349	2,124,575
-	-	-	-	2,451,932
2,446,822	113,750	-	-	4,105,235
-	-	965,000	-	965,000
-	-	2,793,750	49,548	2,843,298
2,446,822	113,750	3,758,750	256,897	12,490,040
(932,295)	166,453	(3,593,532)	980,322	6,757,744
-	-	3,522,188	-	3,522,188
-	-	-	-	(3,522,188)
-	-	3,522,188	-	-
(932,295)	166,453	(71,344)	980,322	6,757,744
28,794,550	9,978,208	3,911,944	635,372	62,142,288
\$ 27,862,255	\$ 10,144,661	\$ 3,840,600	\$ 1,615,694	\$ 68,900,032

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**Redevelopment Agency of the
County of San Bernardino
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2008**

Net change in fund balances of governmental funds \$ 6,757,744

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense that was exceeded by capital outlays for the period. (2,419)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Principal payments on debt 965,000

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in accrued interest expense	(446,676)
Amortization of bond issuance costs	(76,585)
Amortization of deferred charge on refunding	(6,756)
Increase in compensated absences	(22,632)
Amortization of bond premium	42,315
	42,315

Change in net assets of governmental activities	\$ 7,209,991
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The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 1: Summary of Operations and Significant Accounting Policies

Reporting Entity

The Redevelopment Agency of the County of San Bernardino (the Agency) was established in 1980 under the California State Redevelopment Law. In June 1995, the Agency adopted Resolution #95-1 receiving the San Sevaine Redevelopment Project preliminary plan. The plan is for the area surrounding the former Kaiser Steel Mill in the unincorporated areas west of the City of Fontana. The Agency proposes to eliminate and prevent the spread of blight and blighting influences and to strengthen the economic base of the project area and the community. The start-up costs were covered by advances from The California Speedway, Inc. and the County of San Bernardino Flood Control District and were reimbursed from project funds. In December 1995, Ordinance #3631 was passed adopting the San Sevaine Redevelopment Project. During 1997, the speedway portion of the San Sevaine Redevelopment Project was completed. Two businesses in the San Sevaine Redevelopment area generate approximately 57% of all tax increment revenue received.

In May 2000, the Agency adopted a resolution accepting assignment of Victor Valley Economic Development Authority (VVEDA) tax increment revenue. VVEDA is a regional agency responsible for the reuse of George Air Force Base and is comprised of the cities Victorville, Hesperia, Adelanto, Town of Apple Valley and San Bernardino County.

In June 2003, the Agency adopted rules and guidelines for the redevelopment plan for the Mission Boulevard Joint Redevelopment Project with the City of Montclair. Mission Boulevard is in its early stages of development and minimal Agency funds have been committed for this project as of June 30, 2008.

In November 2004, the County adopted Ordinance No. 3942 establishing the Cedar Glen Disaster Recovery Redevelopment Area. The project is in its early stages with no major activities as of June 30, 2008.

In September 2004, the Agency accepted a loan from the San Bernardino County General Fund to fund operating costs for the creation of the proposed Bloomington and Cajon Redevelopment Project Areas. During the prior fiscal year it was determined that the proposed project areas would not be created.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Redevelopment Agencies. The Agency accounts for its financial transactions in accordance with policies and procedures of the State Controller's Office, Division of Accounting and Reporting for California Redevelopment Agencies.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Accounting principles generally accepted in the United States of America require that these financial statements present the accounts of the Agency and any of its component units. Component units are legally separate entities for which the Agency is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Agency's operations, so the accounts of these entities are to be combined with the data of the Agency. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status.

The Agency has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements. However, the Agency is a component unit of the County of San Bernardino.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant policies employed in the preparation of these financial statements follows:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect interfund activity has been removed from these statements. *Governmental Activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Agency currently has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined; and "available" means collectible within the current period. The Agency considers all revenues available if they are collected within 60 days after year-end. Property taxes and investment income are susceptible to accrual. Expenditures are recorded when liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Agency reports the following major governmental funds:

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Agency has three major special revenue funds: the San Sevaine Project Fund, the Low and Moderate Income Housing Fund and the Cedar Glen Project Fund.

Capital Projects Fund – The capital projects funds are used to account for financial resources designated for the acquisition or construction of major capital facilities. The Agency has two major capital projects funds: the RDA Capital Projects Fund and the RDA Housing Fund.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources and for the payment of principal and interest on bonds outstanding.

Additionally, the Agency reports the following other funds:

Special Revenue Fund – The Agency has seven non-major special revenue funds for VVEDA: George Air Force Base reuse tax increment revenue and its related Low and Moderate Income Housing Fund, the Mission Boulevard Joint Redevelopment Project in Montclair, Cedar Glen Disaster Recovery Low-Mod Housing Fund, Bloomington Redevelopment Project Area, Cajon Redevelopment Project Area and the Administration Fund.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Debt Service Fund – The Agency has one non-major debt service fund: the Cedar Glen Project Debt Service Fund.

When both restricted and unrestricted resources are available for use, it is the agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

By state law, the Agency's Governing Board must approve a tentative budget no later than July 1 and adopt a final budget no later than September 30. A public hearing must be conducted to receive comments prior to adoption. The Agency's Governing Board satisfied these requirements. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental fund types.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders or contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will lapse and be re-appropriated and honored during the subsequent year.

Cash and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Agency maintains substantially all of its cash in the San Bernardino County Treasury. The County's investment pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares, is readily convertible to cash, available for immediate withdrawal, and is therefore, considered a cash equivalent for financial statement reporting purposes. In addition, the state authorizes the Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the state treasurer's investment pool. Investments of the Agency are reported at fair value based on quoted market prices.

Capital Assets

Capital assets, which include land, are reported in the government-wide financial statements. The Organization defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the Agency is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	6 - 10

Land Held for Resale

The Agency has acquired several parcels of land as part of its primary purposes. The Agency records these parcels as land held for resale in its financial records. The properties are being carried in the Capital Projects and Special Revenue Funds at the lower of cost or estimated net realizable value, until such time as there is an event, which would indicate an agreed-upon sales price. At June 30, 2008, the land held for resale is being carried at a cost of \$14,657,402, and is offset by a reservation of fund balance.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Restricted Assets

Certain proceeds of the Agency are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "debt service fund" includes the "Bond Reserve" account used to set aside resources to make up potential future deficiencies in the debt service fund.

Compensated Absences

It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The total amount of liability for compensated absences is segregated between short-term and long-term with both portions reflected in the government-wide statements. The short-term portion is determined to be the amount due to employees for future absences, which is attributable to services already rendered, and which is expected to be paid during the next fiscal year.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. Bond proceeds are reported as other financing sources in capital projects funds. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing issues. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Property Taxes

Property taxes are assessed under various legislative provisions, contained in the Government Code and the Revenue and Taxation Code, by the County Assessor. Taxes on real property are limited to one percent of assessed valuation plus additional taxes for repayment of any existing voted indebtedness. The Agency receives a portion of the property tax income based on a formula prescribed in Section 26912(b) of the Government Code and Sections 95-100 of the California Revenue and Taxation Code and as amended by the passage of AB 454.

Secured property taxes are levied on or before the first business day of September of each year. They become a lien on real property on January 1st preceding the fiscal year for which taxes are levied and can be paid in two installments. The first installment is November 1st and is delinquent December 10th, and the second installment is due February 1st of the following year and is delinquent April 10th. The Agency has entered into an agreement with the County of San Bernardino and the City of Victorville to receive its apportioned property taxes throughout the fiscal year.

Fund Balances Reserves and Designations

Reservations of the ending fund balance indicate the portions of a fund balance not available for expenditures or amounts legally segregated for specific future use. Reserves for debt service represent amounts held by the fiscal agent for principle and interest payments on the 2005 Bonds. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. The Agency's capital project funds are designated fund balances for specific purposes.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 2: Cash and Investments

Cash and cash equivalents include the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Agency's account based upon the Agency's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at fair value as of June 30, 2008.

Deposits and investments at June 30, 2008:

External Investment Pool – Cash in San Bernardino County Treasury	\$ 57,193,343
Cash on hand	<u>200</u>
	57,193,543
Investments held with fiscal agent – Bank of New York Western Trust Company:	
Money Market funds invested in U.S. Treasuries	<u>3,817,968</u>
 Total Fair Value of cash and investments	 <u><u>\$ 61,011,511</u></u>

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40. The Agency's investments in U.S. Treasuries Money Market funds through the Bank of New York Western Trust Company were generally rated AAA by Standards & Poor.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Equipment	\$ 14,388	\$ -	\$ -	\$ 14,388
Total capital assets, being depreciated	14,388	-	-	14,388
Less accumulated depreciation for:				
Equipment	(3,225)	(2,419)	-	(5,644)
Total accumulated depreciation	(3,225)	(2,419)	-	(5,644)
Total capital assets, being depreciated, net	<u>\$ 11,163</u>	<u>\$ (2,419)</u>	<u>\$ -</u>	<u>\$ 8,744</u>

Depreciation expense was charged to functions of the Agency as follows:

Community Development	<u>\$ 2,419</u>
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Note 4: Transactions with the County of San Bernardino

The Agency has entered into several agreements with the County of San Bernardino to provide for virtually all services to the Agency, including personnel and administrative services, cash flow management, risk management and project costs. Payment for these services is reflected in the combined statement of revenues, expenditures and changes in fund balance as salaries and benefits and community development.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 5: Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2008, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
San Sevaine Project	2000 Series A Bonds	\$ 73,500
	Cedar Glen Project	202,597
	Low-Mod Housing	157,275
	Nonmajor Special Revenue Funds	179,838
Low-Mod Housing	Cedar Glen Project	3,168
	San Sevaine Project	29,487
	Nonmajor Special Revenue Funds	11,532
Cedar Glen Project	Nonmajor Special Revenue Funds	5,845
RDA Housing	Low-Mod Housing	33,303
Nonmajor Special Revenue Funds	Nonmajor Special Revenue Funds	33,117
Total		<u><u>\$ 729,662</u></u>

Interfund transfers:

	<u>Transfer in:</u>
	<u>2000 Series A</u>
	<u>Bond</u>
Transfer out:	
San Sevaine Project	\$ 2,585,286
Low-Mod Housing	936,902
	<u><u>\$ 3,522,188</u></u>

The above transfers were made to pay debt service.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 6: Non-Current Liabilities

Bonds Payable

In November 2005, the Agency issued Redevelopment Agency of the County of San Bernardino (San Sevaine Redevelopment Project) Tax Allocation Bonds, 2005 Series A (the 2005 Bonds) in the amount of \$58,275,000 to provide funds for the acquisition and construction of various projects in the San Sevaine Redevelopment Project Area and to advance refund the 2000 Bonds. The 2005 Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of tax increment revenues. Bond interest is payable semi-annually on each March 1 and September 1, commencing on March 1, 2006. The 2005 Bonds have stated interest rates ranging from 4.0% to 5.0% over the life of the bonds. The 2005 Bonds maturing after September 1, 2015, are not subject to optional redemption prior to maturity. The 2005 Bonds maturing after September 1, 2016, are subject to redemption, at the option of the Agency.

The Agency deposited \$20,412,672 of the proceeds in an irrevocable trust and purchased U.S. Government State and Local Government Securities for the purpose of generating resources which will be used to call the 2000 Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$168,900. This amount is being netted against the new debt and amortized over the remaining life of the old debt. This advance refunding was undertaken to reduce total debt service payments over the next 24 years by \$6,726,147 and resulted in an economic gain of \$2,075,798.

The following schedule illustrates the annual debt service requirements to maturity for the 2005 Bonds outstanding as of June 30, 2008.

Fiscal years ending June 30,	Principal	Interest
2009	\$ 1,000,000	\$ 2,754,450
2010	1,040,000	2,713,650
2011	1,085,000	2,668,438
2012	1,130,000	2,618,600
2013	1,185,000	2,567,588
2014 - 2018	6,795,000	11,905,250
2019 - 2023	8,660,000	9,987,500
2024 - 2028	11,055,000	7,534,875
2029 - 2033	14,115,000	4,402,875
2034 - 2036	10,280,000	787,750
Total	<u>\$ 56,345,000</u>	<u>\$ 47,940,976</u>

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 6: Non-Current Liabilities (continued)

Notes Payable - County of San Bernardino

The Agency entered into loan agreements with the County of San Bernardino for \$10,415,000. The loans bear interest at 1% over the County investment pool rate and are to be repaid over ten years. The loans will be paid utilizing tax increment revenue from the specific project area as it becomes available. If the project areas are not created and a redevelopment plan is not adopted, the County will forgive the loan balance amounts spent and any accrued interest thereon for that project area. The loans were made available for the project areas as listed below:

Cedar Glen Disaster Recovery Redevelopment Area operating costs for \$290,000 and project improvement costs of \$10,075,000; and Mission Boulevard Joint Redevelopment Project for \$50,000 for administrative costs.

The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Bonds					
2005 A Refunding TAB's	\$ 57,310,000	\$ -	\$ (965,000)	\$ 56,345,000	\$1,000,000
Subtotal bonds	57,310,000	-	(965,000)	56,345,000	1,000,000
Plus deferred amounts:					
Deferred loss on refunding	(155,388)	-	6,756	(148,632)	(6,756)
Issuance premium	1,205,988	-	(42,315)	1,163,673	42,315
Total bonds	58,360,600	-	(1,000,559)	57,360,041	1,035,559
Notes					
County loans	10,810,314	-	(395,314)	10,415,000	-
Compensated absences	45,464	67,558	(44,926)	68,096	22,500
Total long-term debt	\$ 69,216,378	\$ 67,558	\$ (1,440,799)	\$ 67,843,137	\$1,058,059

Interest charged to expense in the statement of activities was \$3,254,415 for the year ended June 30, 2008.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 7: Retirement Plan

The Agency's employees are employees of the County of San Bernardino and therefore are also participants in the San Bernardino County Employee's Retirement Association (SBCERA) cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. The San Bernardino Board of Retirement under the 1937 Act governs the Plan. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. The SBCERA is controlled by its own board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income.

SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, 3rd floor, San Bernardino, California 92415-0014.

Employees are required by statute to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry in the Plan. Employee contribution rates vary according to age and classification. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The County contributes approximately 7% of an employee's covered salary, as determined pursuant to Section 31453 of the 1937 Act. Specific information to the employees of the Agency is not available.

Note 8: Pass-through Agreements and Other Payments

Pass-through Agreements

The Agency is required, in accordance with Health Code Section 33607.5 (AB 1290), to pass-through applicable portions of property tax revenues received by the project area attributable to these entities to the extent that the territorial limits reside within the Agency's project areas. Entities are primarily school districts and special districts in the San Seavine Project Area and the former George Air Force Base Project Area.

Note 9: Commitments and Contingencies

The Agency is potentially subject to various claims and, from time to time, is involved in lawsuits in which damages are sought. As litigation is subject to uncertainties and as the outcome of litigated matters cannot be predicted with any certainty, it is reasonably possible that any pending legal actions could be decided unfavorably against the Agency. The Agency's management believes that any liability that might result from such litigation would not have material effect on the basic financial statements as of June 30, 2008.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2008**

Note 10: Prior Period Restatements

Government-wide financial statements

<i>Governmental-type activities</i> Description	Balance as previously reported	Restatements	Balance as restated
To correct an error in the recording of County loans	<u>\$ 3,998,144</u>	<u>\$ 75,000</u>	<u>\$ 4,073,144</u>

Fund financial statements

<i>Governmental funds</i> Description	Balance as previously reported	Restatements	Balance as restated
Major Fund: Cedar Glen Project	<u>\$ 9,267,787</u>	<u>\$ (9,290,000)</u>	<u>\$ (22,213)</u>
Non Major Funds: Mission Blvd Joint Project	<u>\$ 106,393</u>	<u>\$ (50,000)</u>	<u>\$ 56,393</u>
Bloomington Project	<u>\$ 182,814</u>	<u>\$ (165,497)</u>	<u>\$ 17,317</u>
Cajon Project	<u>\$ 261,551</u>	<u>\$ (229,817)</u>	<u>\$ 31,734</u>
Cedar Glen Low-Mod Housing	<u>\$ 507,472</u>	<u>\$ (1,000,000)</u>	<u>\$ (492,528)</u>

The above restatements are to correct the recording of the County General Fund Loans per GASB 34.

SUPPLEMENTARY INFORMATION

**Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - San Sevaine Project
Major Special Revenue Fund
For The Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Tax increment	\$ 6,430,752	\$ 6,430,752	\$ 11,186,801	\$ 4,756,049
Use of money and property	164,000	164,000	405,351	241,351
Other	600,000	600,000	449,989	(150,011)
Total revenues	<u>7,194,752</u>	<u>7,194,752</u>	<u>12,042,141</u>	<u>4,847,389</u>
Expenditures				
Current:				
Community development	934,996	1,704,996	1,595,678	109,318
Pass through agreement payments	-	-	2,323,186	(2,323,186)
Capital outlay:				
Project improvement costs	<u>11,742,768</u>	<u>10,972,768</u>	<u>1,144,663</u>	<u>9,828,105</u>
Total expenditures	<u>12,677,764</u>	<u>12,677,764</u>	<u>5,063,527</u>	<u>7,614,237</u>
Excess of revenues over (under) expenditures	<u>(5,483,012)</u>	<u>(5,483,012)</u>	<u>6,978,614</u>	<u>12,461,626</u>
Other Financing Sources (Uses)				
Transfers out	<u>(2,758,923)</u>	<u>(2,758,923)</u>	<u>(2,585,286)</u>	<u>173,637</u>
Total other financing sources (uses)	<u>(2,758,923)</u>	<u>(2,758,923)</u>	<u>(2,585,286)</u>	<u>173,637</u>
Net change in fund balance	(8,241,935)	(8,241,935)	4,393,328	12,635,263
Fund balance, beginning of year	<u>11,568,366</u>	<u>11,568,366</u>	<u>11,568,366</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,326,431</u>	<u>\$ 3,326,431</u>	<u>\$ 15,961,694</u>	<u>\$ 12,635,263</u>

**Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - Low-Mod Housing
Major Special Revenue Fund
For The Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Tax increment	\$ 2,143,584	\$ 2,143,584	\$ 2,796,700	\$ 653,116
Use of money and property	99,000	99,000	232,547	133,547
Total revenues	<u>2,242,584</u>	<u>2,242,584</u>	<u>3,029,247</u>	<u>786,663</u>
Expenditures				
Current:				
Community development	2,500	2,500	113,193	(110,693)
Capital outlay:				
Project improvement costs	<u>5,671,707</u>	<u>5,671,707</u>	<u>-</u>	<u>5,671,707</u>
Total expenditures	<u>5,674,207</u>	<u>5,674,207</u>	<u>113,193</u>	<u>5,561,014</u>
Excess of revenues over (under) expenditures	<u>(3,431,623)</u>	<u>(3,431,623)</u>	<u>2,916,054</u>	<u>6,347,677</u>
Other Financing Sources (Uses)				
Transfers out	<u>(999,827)</u>	<u>(999,827)</u>	<u>(936,902)</u>	<u>62,925</u>
Total other financing sources (uses)	<u>(999,827)</u>	<u>(999,827)</u>	<u>(936,902)</u>	<u>62,925</u>
Net change in fund balance	(4,431,450)	(4,431,450)	1,979,152	6,410,602
Fund balance, beginning of year	<u>7,276,061</u>	<u>7,276,061</u>	<u>7,276,061</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,844,611</u>	<u>\$ 2,844,611</u>	<u>\$ 9,255,213</u>	<u>\$ 6,410,602</u>

**Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - Cedar Glen Project
Major Special Revenue Fund
For The Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Tax increment	\$ 222,200	\$ 222,200	\$ 507,866	\$ 285,666
Use of money and property	97,000	97,000	471,363	374,363
Total revenues	319,200	319,200	979,229	660,029
Expenditures				
Current:				
Community development	984,563	984,563	208,355	776,208
Pass through agreement payments	-	-	128,746	(128,746)
Capital outlay:				
Project improvement costs	695,011	695,011	400,000	295,011
Total expenditures	1,679,574	1,679,574	737,101	942,473
Net change in fund balance	(1,360,374)	(1,360,374)	242,128	1,602,502
Fund balance, beginning of year, as restated	(22,213)	(22,213)	(22,213)	-
Fund balance, end of year	<u>\$ (1,382,587)</u>	<u>\$ (1,382,587)</u>	<u>\$ 219,915</u>	<u>\$ 1,602,502</u>

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
RDA Capital Projects Fund
For The Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Use of money and property	\$ 641,500	\$ 641,500	\$ 1,514,527	\$ 873,027
Total revenues	641,500	641,500	1,514,527	873,027
Expenditures				
Capital outlay:				
Project improvement costs	8,215,000	8,215,000	2,446,822	5,768,178
Total expenditures	8,215,000	8,215,000	2,446,822	5,768,178
Excess of revenues over (under) expenditures	(7,573,500)	(7,573,500)	(932,295)	6,641,205
Other Financing Sources (Uses)				
Transfers out	(21,252,819)	(21,252,819)	-	21,252,819
Total other financing sources (uses)	(21,252,819)	(21,252,819)	-	21,252,819
Net change in fund balance	(28,826,319)	(28,826,319)	(932,295)	27,894,024
Fund balance, beginning of year	28,794,550	28,794,550	28,794,550	-
Fund balance, end of year	\$ (31,769)	\$ (31,769)	\$ 27,862,255	\$ 27,894,024

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
RDA Housing Fund
For The Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Use of money and property	\$ 190,200	\$ 190,200	\$ 280,203	\$ 90,003
Total revenues	190,200	190,200	280,203	90,003
Expenditures				
Capital Outlay:				
Project improvement costs	6,530,922	6,530,922	113,750	6,417,172
Total expenditures	6,530,922	6,530,922	113,750	6,417,172
Net change in fund balance	(6,340,722)	(6,340,722)	166,453	6,507,175
Fund balance, beginning of year	9,978,208	9,978,208	9,978,208	-
Fund balance, end of year	<u>\$ 3,637,486</u>	<u>\$ 3,637,486</u>	<u>\$ 10,144,661</u>	<u>\$ 6,507,175</u>

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
2000 Series A Bond Fund
For The Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Use of money and property	\$ -	\$ -	\$ 165,218	\$ 165,218
Total revenues	-	-	165,218	165,218
Expenditures				
Debt service:				
Principal	965,000	965,000	965,000	-
Interest	2,793,750	2,793,750	2,793,750	-
Total expenditures	3,758,750	3,758,750	3,758,750	-
Excess of revenues over (under) expenditures	(3,758,750)	(3,758,750)	(3,593,532)	165,218
Other Financing Sources (Uses)				
Transfers in	3,758,750	3,758,750	3,522,188	(236,562)
Total other financing sources (uses)	3,758,750	3,758,750	3,522,188	(236,562)
Net change in fund balance	-	-	(71,344)	(71,344)
Fund balance, beginning of year	3,911,944	3,911,944	3,911,944	-
Fund balance, end of year	<u>\$ 3,911,944</u>	<u>\$ 3,911,944</u>	<u>\$ 3,840,600</u>	<u>\$ (71,344)</u>

**Redevelopment Agency of the
County of San Bernardino
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

	Special Revenue Funds		
	Victor Valley Economic Development Authority		Mission Blvd Joint Project
	Low – Mod Housing	General	Low – Mod Housing
ASSETS			
Cash and cash equivalents	\$ 546,796	\$ 515,212	\$ 73,238
Receivables:			
Interest	5,235	5,103	746
Prepaid items	-	83,383	-
Due from other governments	477,043	479,014	22,570
Due from other funds	-	33,117	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,029,074</u>	<u>\$ 1,115,829</u>	<u>\$ 96,554</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 21,318	\$ -
Due to other funds	54,947	69,377	9,648
Loans payable	-	-	50,000
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>54,947</u>	<u>90,695</u>	<u>59,648</u>
 Fund Balances:			
Unreserved, reported in:			
Special revenue funds	974,127	1,025,134	36,906
Debt service fund	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficit)	<u>974,127</u>	<u>1,025,134</u>	<u>36,906</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,029,074</u>	<u>\$ 1,115,829</u>	<u>\$ 96,554</u>

Bloomington Project	Special Revenue Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Cajon Project	Cedar Glen Project	Redevelopment	Cedar Glen Project	
General	General	Low-Mod Housing	Administration	Debt Service	
\$ 2,667	\$ 3,819	\$ 665,019	\$ 40	\$ 859	\$ 1,807,650
-	-	6,389	68	232	17,773
-	-	-	-	-	83,383
-	-	-	-	-	978,627
-	-	-	-	-	33,117
<u>\$ 2,667</u>	<u>\$ 3,819</u>	<u>\$ 671,408</u>	<u>\$ 108</u>	<u>\$ 1,091</u>	<u>\$ 2,920,550</u>
\$ -	\$ -	\$ 3,206	\$ -	\$ -	\$ 24,524
-	-	96,360	-	-	230,332
-	-	1,000,000	-	-	1,050,000
-	-	1,099,566	-	-	1,304,856
2,667	3,819	(428,158)	108	-	1,614,603
-	-	-	-	1,091	1,091
<u>2,667</u>	<u>3,819</u>	<u>(428,158)</u>	<u>108</u>	<u>1,091</u>	<u>1,615,694</u>
<u>\$ 2,667</u>	<u>\$ 3,819</u>	<u>\$ 671,408</u>	<u>\$ 108</u>	<u>\$ 1,091</u>	<u>\$ 2,920,550</u>

**Redevelopment Agency of the
County of San Bernardino
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2008**

	Special Revenue Funds		
	Victor Valley Economic Development Authority		Mission Blvd Joint Project
	Low – Mod Housing	General	Low – Mod Housing
Revenues			
Tax increment	\$ 477,043	\$ 524,615	\$ -
Use of money and property	23,228	25,205	3,977
Other	19,287	-	-
Total revenues	519,558	549,820	3,977
Expenditures			
Current:			
Community development	10,298	81,876	23,464
Debt service:			
Interest	-	-	-
Total expenditures	10,298	81,876	23,464
Net change in fund balances	509,260	467,944	(19,487)
Fund balances, beginning of year, as restated	464,867	557,190	56,393
Fund balances, end of year	<u>\$ 974,127</u>	<u>\$ 1,025,134</u>	<u>\$ 36,906</u>

Special Revenue Funds				Debt Service Fund	Total Nonmajor Governmental Funds
Bloomington Project	Cajon Project	Cedar Glen Project	Redevelopment	Cedar Glen Project	
General	General	Low-Mod Housing	Administration	Debt Service	
\$ -	\$ -	\$ 126,966	\$ -	\$ -	\$ 1,128,624
2,885	4,098	29,115	108	692	89,308
-	-	-	-	-	19,287
2,885	4,098	156,081	108	692	1,237,219
-	-	91,711	-	-	207,349
17,535	32,013	-	-	-	49,548
17,535	32,013	91,711	-	-	256,897
(14,650)	(27,915)	64,370	108	692	980,322
17,317	31,734	(492,528)	-	399	635,372
\$ 2,667	\$ 3,819	\$ (428,158)	\$ 108	\$ 1,091	\$ 1,615,694

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To the Governing Board
Redevelopment Agency of the County of San Bernardino

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance with *Government Auditing Standards***

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino (the Agency), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008 and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Melody & Scott, LLP

November 14, 2008